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# Sluggish start to year for manufacturers

## Official PMI rises slightly but sector stays in contraction for fourth month

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Beijing's efforts to regain economic growth momentum got off to a slow start in 2024, with manufacturing activity remaining in contraction in January for a fourth consecutive month despite a slight improvement.

The official manufacturing purchasing managers' index (PMI) recovered slightly to 49.2, compared with 49 in December, data released by the National Bureau of Statistics yesterday showed, but remained below the 50 level that separates contraction from expansion.

The first set of data of the new year, which was in line with market expectations, revealed recurring challenges, including subdued demand and weak consumption.

"The rise in the manufacturing index was mostly driven by a rise in the output component. The overall new orders component and export orders components rose too, but by less and they remain below 50, consistent with softening demand and a decline in exports," analysts at Capital Economics said.

Within the PMI, the new export orders subindex increased by 1.4 percentage points from the previous month, while the production subindex stood at 51.3 in January, representing an increase of 1.1 percentage points.

A reading of 49 for the new orders subindex, an increase of 0.3 percentage points from the previous month, indicated demand had improved slightly.

The manufacturing PMI reading had fallen for five consecutive months from April last year, and after a brief expansion in September, fell back into contraction in October.

The data for January suggested Beijing still needed to buttress the economic recovery, with sentiment among manufacturers having dampened amid lukewarm demand, while the property sector – an economic pillar that spans numerous industries – remained in the doldrums.

A protracted local government debt crisis and external complexities, including waning overseas orders, have also added to the headwinds, with more measures urged to boost the economy as Beijing is again expected to set a growth target of around 5 per cent for this year.

The country's numerous small and medium-sized enterprises, meanwhile, continued to struggle at the start of this year, with improvements in profitability and prospects lagging behind their larger peers.

The reading for medium-sized enterprises stood at 48.9, up marginally from December's 48.7, while the reading for small firms dropped to 47.2. By contrast, more than 70 per cent of large manufacturers had a capacity utilisation rate of 80 per cent or more.

Some key subindices also presented a gloomy picture, as the seasonally-adjusted production and operation activity expectation index fell to 54 in January from 55.9 in December.

The manufacturing sector employment subindex dipped to 47.6, a decrease of 0.3 percentage points from December, in a sign that hiring and the job market remained depressed and firms struggled to keep employees on the payroll.

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>
> LYNN SONG, ING

The non-manufacturing PMI – which measures business sentiment in the services and construction sectors – continued to improve in January, climbing to 50.7 from 50.4 in December.

But the seasonally-adjusted construction sector business activity subindex slumped to 53.9 in January from 56.9 in December, indicating persistently bleak sentiment in the property sector.

"Overall, the PMI data shows that China's economy remains relatively soft, as confidence remains weak. Until forward-looking indicators such as new orders return to expansion, economic momentum is likely to remain tepid," said Lynn Song, chief economist for Greater China at ING.

"Employment remaining in contraction in both the manufacturing and non-manufacturing surveys also indicates that the job market remains weak, which will continue to be a headwind to consumption," Song said.

Beijing made moves to address economic concerns at the start of the year, including cutting the reserve requirement ratio for commercial banks by 50 basis points from February 5.

Last week, the financial regulator vowed to support the property market, while on Monday, Vice-Premier He Lifeng called for improvements in the performance and profitability of listed firms amid concerns over the ailing stock market.

"We think growth will recover further in the near-term thanks to policy support. But the current approach to stimulus won't address the economy's structural problems, which will continue to weigh on medium-term growth," Capital Economics said.

"[The PMI figures] add to evidence that growth momentum in China is in the midst of a renewed recovery, albeit one that remains on shaky foundations and is unlikely to be sustained once current policy support is pared back."

The economy grew by 5.2 per cent last year.